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SUBJECT: NEW ZEALAND SCRAPS PLANS FOR CARBON TAX

REF: WELLINGTON 603

[1](#)1. (U) The New Zealand government has scrapped its plan to levy a tax on the carbon content of petrol and diesel fuel, which it had hoped would help New Zealand meet its emission targets under the Kyoto Protocol. However, the government still will consider a carbon tax on fuel-burning power stations and other measures to reduce the country's carbon-dioxide emissions.

[1](#)2. (U) Climate Change Minister David Parker announced December 21 that a government review initiated in June 2005 showed that the carbon tax would not cut emissions enough to justify its introduction. Parker said a new set of policies, due in March 2006 -- would deliver larger emissions reductions. The tax had been expected to cut by 3 percent the country's emissions during the first Kyoto commitment period from 2008 to 2012. Due to go into effect in April 2007, the tax would have added approximately NZ 4 cents per liter (US 10.6 cents per gallon) to gasoline, considered negligible when compared to the rise in gas prices resulting from higher world oil prices.

[1](#)3. (SBU) Although Parker denied the move was forced by political reality, the Labour government lacked sufficient votes to pass the carbon tax legislation. Two of Labour's partners in government, United Future and New Zealand First, had opposed the carbon tax, as had the National and ACT parties. The only strong support for the carbon tax came from the Green Party, whose leader Jeanette Fitzsimons criticized the government for "giving up on its goal to reduce New Zealand's carbon emissions," capitulating to the anti-Kyoto lobby, and abandoning a carbon tax plan 10 years in the making.

[1](#)4. (SBU) While the carbon tax might not have made much of a dent in New Zealand's carbon emissions, its cancellation exacerbates the government's budgetary pressure by creating a shortfall of NZ\$ 350 million (US\$ 245 million) per year, which already had been earmarked for tax reductions. Finance Minister Michael Cullen said that the loss in expected revenue may require the government to adjust its plans to increase personal income tax thresholds beginning in April [1](#)2008.

[1](#)5. (SBU) At the same time, the cost to New Zealand for its commitment to the Kyoto Protocol is getting bigger, considering the cost of the extra emissions that the carbon tax had been expected to prevent. In June 2004, the government announced for the first time that New Zealand's estimate of its greenhouse gas emissions would exceed targets set under the Kyoto Protocol. It is still estimating a

liability of hundreds of millions of dollars (reftel).
Burnett